

Message Text

CONFIDENTIAL

PAGE 01 STATE 203176

62

ORIGIN ARA-10

INFO OCT-01 SS-14 ISO-00 NSC-10 NSCE-00 CIEP-01 TRSE-00

EB-03 CIAE-00 INR-10 NSAE-00 RSC-01 SSO-00 INRE-00

PRS-01 COME-00 L-02 INT-01 OMB-01 /055 R

DRAFTED BY ARA/EP/P:MRRFRECHETTE

APPROVED BY ARA:HSHLAUDEMAN

ARA-LA/EP:RFWEBER

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FM SECSTATE WASHDC

TO AMEMBASSY LIMA IMMEDIATE

C O N F I D E N T I A L STATE 203176

LIMDIS

EO11652:GDS

TAGS: BDIS, EMIN, EIND, PE

SUBJECT: CERRO DE PASCO PROBLEM

REF: LIMA 7484

1. BEGIN FYI. CERRO MANAGEMENT HAS NOT RPT NOT KEPT LLOSA FULLY INFORMED OF ALL ITS PROPOSALS TO THE MILITARY GOVERNMENT. MURPHY AND WALSH WISH TO AVOID HAVING LLOSA CAUGHT IN PERUVIAN ANIMUS TOWARD CERRO MANAGEMENT.

2. IN ADDITION TO PROPOSAL MENTIONED IN REFTTEL, CERRO PASSED A SECOND AND REFINED PROPOSAL TO THE PERUVIAN GOVERNMENT THROUGH A VARIETY OF CONDUITS: (A) IN NEW YORK TO CUCHIERELLI, MANAGING DIRECTOR, BANCO DE CREDITO; (B) TO MINFIN BY GREENE ON THE TELEPHONE; AND (C) TO PRESIDENT VELASCO IN PERSON THROUGH AN UNNAMED INTERMEDIARY. REFINED PROPOSAL WAS ESSENTIALLY A SWAP CONSISTING OF THE FOLLOWING ELEMENTS: (1) PERU WOULD GRANT CERRO DOLS 27 MILLION
CONFIDENTIAL

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PAGE 02 STATE 203176

IN CONVERTIBILITY BASED ON CERRO'S LOCAL CURRENCY HOLDINGS

IN PERU; (2) THESE DOLLARS WOULD NOT LEAVE PERU BUT WOULD BE USED BY CERRO TO PAY DOLS 6.8 MILLION TO BANCO DE CREDITO AND DOLS 20 MILLION TO MINEROPERU; (3) CERRO AND MINEROPERU WOULD CONTINUE TO DO BUSINESS ON A CASH BASIS; AND (4) CERRO WOULD KEEP DOLS 27 MILLION IN REMITTANCES WHICH IT HAS HELD BACK FROM PERU.

3. LLOSA WAS INSTRUCTED BY WALSH TO SEE PRIMMIN ON OCTOBER

11, TAKING THE POSITION THAT HE WAS NOT FULLY INFORMED ON WHAT CERRO MANAGEMENT IS DOING IN NEW YORK; THAT HIS CONCERN WAS TO KEEP CERRO OPERATING; AND THAT HE BELIEVED PERUVIANS SHARED HIS CONCERN.

4. LLOSA REPORTED TO WALSH ON OCTOBER 12 THAT MERCADO WAS FRIENDLY AND SUGGESTED THAT HE SPEAK TO MINFIN, MINMINES AND VICTOR MIRO QUESADA. LLOSA SPOKE TO BROUSSET AND MIRO QUESADA ON OCTOBER 11 AND INTENDS SPEAK TO MINMINES ON OCTOBER 12. AS A RESULT OF THESE MEETINGS LLOSA IS OPTIMISTIC AND ENCOURAGED. HE FOUND PERUVIANS POSITIVE, FRIENDLY AND CLEARLY LOOKING FOR A SOLUTION WITH A REALIZATION OF THE SERIOUSNESS OF THE SITUATION AND A DESIRE TO AVOID A SHUTDOWN OF CERRO DE PASCO OPERATIONS.

5. BROUSSET TOLD LLOSA THAT HE HAS INSTRUCTIONS BOTH FROM PRESIDENT VELASCO AND THE MINFIN TO END THE IMPASSE AND TO KEEP CERRO DE PASCO GOING. BROUSSET ALSO SAID THAT THE PERUVIANS DO NOT RPT NOT ACCEPT CERRO'S REFINED PROPOSAL OUTLINED ABOVE IN PARA 2. THEY WOULD NOT, BROUSSET SAID, GRANT THE CONVERTIBILITY REQUESTED BY CERRO. INSTEAD, BROUSSET SUGGESTED THREE GENERAL COUNTER-PROPOSALS:

(1) PERU COULD UNFREEZE CERRO'S 350 MILLION SOLES BANK ACCOUNT IN THE BANCO DE CREDITO AND UNFREEZE FLOW OF FUNDS TO CERRO AGAINST METAL SHIPMENTS MADE THROUGH MINEROPERU;
(B) PERU MIGHT BE WILLING TO DELAY SOME IMPORTANT PAYMENTS FOR CERRO (ONE OF THESE IS 80 MILLION SOLES FOR A WAGE INCREASE RETROACTIVE TO JULY; THE OTHER IS A 80 MILLION SOLES INCOME TAX PAYMENT DUE ON OCTOBER 22); AND
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CONFIDENTIAL

PAGE 03 STATE 203176

(C) PERU COULD FACILITATE LOCAL BORROWING BY CERRO AGAINST ITS METAL STOCKS IN CALLAO (DOLS 37 MILLION IN METALS AND ZINC CONCENTRATES.

6. WALSH STATES THAT ON OCTOBER 11 CERRO DE PASCO APPROACHED BANCO POPULAR FOR LOANS AND GOT A POSITIVE RESPONSE. HE REASONS, THEREFORE, THAT BANCO POPULAR ACTING ON INSTRUCTIONS FROM THE PERUVIAN GOVERNMENT. CERRO ALSO AP-

PROACHED CITY BANK BUT HAS NOT YET RECEIVED A RESPONSE. WALSH SAYS THAT IN DISCUSSING THIS PROBLEM WITH LLOSA, BROUSSET DID NOT MENTION THE DOLS 27 MILLION IN REMITTANCES WHICH CERRO HAS HELD BACK, AND BELIEVES THIS IMPLIES A TACIT ACCEPTANCE BY THE PERUVIANS OF A MEXICAN STANDOFF BETWEEN THE DOLS 27 MILLION WHICH CERRO HAS IN NEW YORK AGAINST THE DOLS 50 MILLION WHICH IT HAS IN PERU IN LOCAL CURRENCY ACCOUNTS.

7. WE HAVE TOLD WALSH OF FONMIN'S REACTION TO CERRO'S FIRST PROPOSAL AS REPORTED IN PARA 3 OF REFERENCE. END FYI

8. WE APPRECIATE YOUR EFFORTS AS REPORTED IN REFERENCE AND BELIEVE THAT, BASED ON YOUR JUDGMENT AND ASSESSMENT OF THE SITUATION, YOU SHOULD CONTINUE TO USE YOUR GOOD OFFICES TO AVOID A SHUTDOWN OF CERRO DE PASCO'S OPERATIONS. KISSINGER

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